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SUBJECT: ECUADOR ECON WEEKLY: LAW CONTRACT CANCELLED IN OXY CASE;
NEW MINING LAW PLANNED; BIDS FOR MINOR OIL FIELDS

¶1. (U) The following is a weekly economic update for Ecuador that reports notable developments that are not reported by individual cables.

OXY: Ecuador Revokes Leboeuf Contract

¶2. (U) Due to a conflict of interest, on September 18 the office of the Ecuadorian Attorney General cancelled its contract with U.S. law firm Leboeuf, Lamb, Greene and MacRae, which was to represent Ecuador in the Occidental (Oxy) arbitration process. The move followed a September 5 letter from Oxy to the International Centre for Settlement of Investment Disputes (ICSID) outlining Leboeuf's conflict of interest. Leboeuf presented the case to University of Pennsylvania law professor Geoffrey Hazard, a leading U.S. expert on legal ethics, who concluded that the firm's merger with Dewey Ballantine, LLP (which represents a subsidiary of Occidental) did pose a conflict of interest. The Attorney General's office has filed a request with ICSID to delay proceedings until February 2008 in order to find another firm to represent Ecuador.

GOE Prepares New Mining Law

¶3. (SBU) During a mining forum September 18, Minister of Petroleum and Mining Galo Chiriboga announced plans to draft a new mining law that would allow the State greater control of the sector. The GOE has contemplated reforms to the current mining law, which does not allow for royalties, for some time. According to Chiriboga, "the present law is absolutely permissive; the State role is limited to reviewing and granting requests only." In addition to increased State participation in the sector, the Minister anticipates that a new mining law would allow the government to charge royalties. Vice President of the Mining Chamber, Cesar Espinoza, reported that his chamber has not seen or been consulted on the potential new law. With so much uncertainty over what will happen with the sector, few companies are currently investing, even with high prices for metals.

Ecuador Restarts Bid Process for Minor Oil Fields

¶4. (U) The GOE restarted the bid process for Ecuador's "marginal" oil fields (those producing 1% or less of the country's production), a continuation of the process from November 2006. Bids on the eight fields were being evaluated the week of September 17-21. The private Ecuadorian-Venezuelan consortium Petrolero Amazonico has thus far made the most bids, on seven of the eight fields. The

fields reportedly contain up to 120 million barrels of proven reserves.

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